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Optimizing social participation over the life cycle

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Publication date:
1996

[Link to publication in Tilburg University Research Portal](#)

Citation for published version (APA):

Kerstholt, F. T. S., & van Wezel, J. A. M. (1996). *Optimizing social participation over the life cycle: Towards an integrated socio-economic theory and policy institutional conditions of transitional labour markets*. (WORC Paper; Vol. 96.08.010/1). Oldendorff Research Institute.

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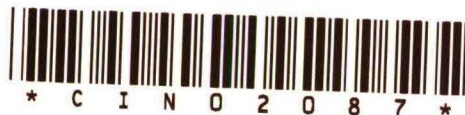
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Optimizing Social Participation over the Life Cycle:

Towards an Integrated Socio-Economic Theory and Policy

Institutional Conditions of Transitional Labour Markets

WORC Paper 96.08.010/1

**Frans Kerstholt
Jan van Wezel**

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European Commission Programme
'Targeted Socio-Economic Research (TSER)'

Area III:
Research into
Social Exclusion and Social Integration
in Europe

Research Projects on
Transitional Labour Markets
(TRANSLAMS)

R3

t labour market
v social integration
v social exclusion
t unemployment
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**Optimizing Social Participation Over the Life Cycle:
Towards an integrated socio-economic theory and policy.**

Institutional conditions of transitional labour markets

Frans Kerstholt
Jan van Wezel

WORC PAPER 96.08.010/1

Paper presented at the Meeting of the ISA Research Committee 28
on Social Stratification at the Institute for Social Research
of the University of Michigan, Ann Arbor Mich.

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August 1996

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**Optimizing Social Participation Over the Life Cycle:
Towards an integrated socio-economic theory and policy.**

Institutional conditions of transitional labour markets.

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Keywords: transitional labour markets, theories of labour markets, coordination regimes and mechanisms, perfect labour market, optimal societal situation, deviations, social exclusion in Europe, social integration

1. Introduction

High unemployment and unacceptable levels of social exclusion in Europe inspired the European Commission to launch the Fourth Research Promotion Programme on Targeted Socio-Economic Research. The research group *Social Integration by Transitional Labour Markets*, coordinated by the Social Science Research Centre in Berlin, is one of the groups that try to make a contribution to a considerable reduction of the problems mentioned above. The Department of Sociology of Tilburg University, The Netherlands, is one of the participants in the research.

The research programme consists of four modules:

1. a module on Theory of Transitional Labour Markets;
2. a module on Households and Working Time Flexibility;
3. a module on Active Labour Market Policy;
4. a module on Training and Human Capital Investment.

With the exception of module four our department participates in all modules.

The present paper is meant to be a theoretical contribution to the modules two and three. The outline is as follows.

We start with a brief statement of the central research problem. Then the key objectives of the program will be sketched. In the next section we present an overview of labour market theories which are currently used for the explanations of unemployment and which have implications for the understanding of social exclusion. Discussion of the theories presented will lead us to suggest an alternative approach. To that end we will first dwell on literature about coordination regimes, conceived as institutions, and coordination mechanisms. In that section we propose some connections between coordination regimes and ideologies

as expressions of basic value-patterns. Finally we present a more integrated socio-economic approach, which can be used in the research programme Social Integration by Transitional Labour Markets.

2. The central problem

The leading research problem can be formulated as follows: Which mixture of institutions in the economic-political and social-cultural spheres can be expected to contribute to favourable socio-economic performance, i.e. low unemployment and low exclusion, and which combinations of coordination regimes will probably produce poor socio-economic performance, i.e. high unemployment and high exclusion?

G. Schmid has proposed to tackle the problem in terms of what he calls a theory of transitional labour markets. It is his conviction that the relationships between institutions and social exclusion/integration are mediated by labour markets: 'The key hypothesis is that the borders between the labour market and other social systems such as education and family life have to become more open for transitory states between gainful employment and productive non-market activities in order to alleviate present high structural unemployment, to prevent further exclusion from the labour market and to reduce segmentation or occupational segregation of the labour market.' (Schmid 1996: 2)

Transitional labour markets are characterized by open borders with other social systems and encourage mobility ('transitions') across these borders without inducing downward spirals of social exclusion. They are supposed to optimize people's lifetime societal participation.

The concept is developed on the basis of a 'modernized concept of full employment' defined as 'an average working time of 30 hours a week over a life cycle of both men and women'. Transitional employment are 'called the phases in the life cycle in which the working time deviates substantially from the new standard of 30 hours.' Examples are spells of short time work, training and retraining, temporary leaves. Transitional labour markets are 'institutional arrangements that allow such intermediate phases.' (Schmid 1996: 4) The necessity of mobility and flexibility together with the idea of 'work sharing', which is seen as expressing a cooperative attitudes, are the core ideas on which the theory is built.

According to Schmid five types of transitional labour market can be distinguished: 'transitions between short-time work or part-time work and full-time employment, or transitions between dependent work and self-employment or a combination of both (1); transitions between unemployment and employment (2); transitions between education or training and employment (3); transitions between private (domestic work and employment (4); and transitions from employment to retirement (5).' (Schmid 1996: 9)

His paper is largely devoted to an assessment of the different ways in which active labour market policies could promote patterns of mobility that conform to the principles of productivity enhancing flexibility and work-sharing. The possible contributions of public or politically induced policies form a prominent part of Schmid's argument.

In our paper we will try to broaden the scope of the approach. We will concentrate on interdependencies between different societal spheres and the institutions that are part of them. The goal is to explore the ways in which these interdependencies might influence the transitional labour market processes and outcomes that Schmid has drawn our attention to.

3. The key objectives

The key objectives of our research are:

- 1: the development of new theoretical and empirical knowledge about social exclusion and social integration in Europe;
- 2: to strengthen the theoretical, empirical and methodological basis of the social sciences in the countries of the European Union in the field of social exclusion and integration;
- 3: to contribute to social integration policies, in dialogue with groups of key policy-makers and representatives of institutions that are actively involved in combatting social exclusion and promoting social integration.

4. Theories of the labour market: promises and limits

4.1 Introduction

It is possible to distinguish three general conceptions of the labour market (H. Pfriem, 1979; W. Bremer, 1991; A. Glebbeek, 1993):

- A. the labour market as an exchange market;
- B. the labour market as an arena;
- C. the labour market as an institution, as an organization.

Each conception or paradigm has engendered a number of specific theories.

4.2 Theories within the paradigm of the labour market as an exchange market

We distinguish four theories within the paradigm of the labour market as an exchange market.

Scheme 1. Theories within the paradigm of the labour market as exchange market

| The Labour Market as an Exchange Market | |
|---|--|
| 1. | The neoclassical economic theory |
| 2. | The search-theory: the result of relaxing the assumption of complete information typical of neoclassical theory |
| 3. | The human capital theory: the result of relaxing the assumption of homogeneity of labour typical of neoclassical theory |
| 4. | The efficiency wage model: the assumptions of certainty and complete information are relaxed; the assumption of risk-sharing adopted |

4.2.1 *The neoclassical economic theory of the labour market*

The central assumptions of neoclassical economic theory are:

1. Perfect competition:
 - 1.1 Free wage determination: high supply and demand so that no single party is able to set the wage rate;
 - 1.2 Complete information;
 - 1.3 Homogeneous labour resulting in perfect mobility
2. The objective of individuals is the maximization of economic utility (economic rationality)
3. The labour market will reach equilibrium (because of the assumptions one and two):
 - a wage level with equilibrium between demand and supply;
 - differences in wages express different levels of productivity. (De Galan, 1981)

Theories 2 and 3 are derived after relaxing the assumptions of complete information and homogeneity of labour, respectively (see scheme 1).

4.2.2 *The search theory*

Compared with the neoclassical economic theory the assumption of complete information is relaxed in the search theory. Relaxing this assumption produces a scientific problem, which the search theory tries to solve. C. Holt (1971) is one of the relevant writers. Information is limited in the labour market. Acquiring information is not costless, but it might help finding a better job. Job hunting employees have either to accept a job with a given pay or they have to continue looking for a higher paid job. They will go on looking for a job as long as the subjectively (expected) extra pay exceeds the extra (expected) search costs. The best available job will be accepted when the marginal benefits equal the marginal costs.

In the search theory it is assumed that employees are looking for new or other jobs because of the expectation of better paid jobs. Employers are also looking for employees. They keep vacancies unfilled because they expect to find cheaper employees. In the search

theory the assumptions of free competition, homogeneity of labour and maximization of economic utility are maintained.

The macro level variant of the search theory is a labour turnover theory. This focuses on flows and transitions of job seeking employees and vacancies.

4.2.3 The human capital theory

The human capital relaxes the assumption that labour is homogeneous (Gary Becker, 1964). Investment in human capital is analyzed as a utility maximizing decision. Education and training are the archetypes of this kind of investment. An higher educated employee is more productive and will receive a higher income. Scheme 2 illustrates these connections.

Scheme 2. Causal relationships between human capital, productivity and income.



Differences of human capital imply heterogeneity of labour.

4.2.4 The efficiency wage model

The efficiency wage theory tries to explain wage rigidity in the case of excess-supply of employees. Then the wages are above the market clearing rate. Why are the wages not flexible? The theory seeks the explanation in a remarkable reversal of causality between income and productivity, as compared to neoclassical theory. The causal relationship, though unchanged positive, is seen to run from income to productivity. Employers and employees share risks. Employees adjust their productivity to the wage paid. The advantages of efficiency wages are:

- Forced dismissal is a real sanction;
- Turnover is restricted;
- Internal training becomes profitable;
- Their functioning as a motivating signal ;
- Efficiency wages enable employers to match persons and jobs. (A. Glebbeek, 1993)

Given their interests in the control of the labour process employers face strong incentives to put the wage level above the market price. The resulting efficiency wages are a cause for labour market segmentation.

A characteristic of the four theories within the paradigm of the labour market as an exchange market is the emphasis on individualistic and economic rationality. The theories materialize in equilibrium models.

The most important policy recommendations resulting from the paradigm of the labour market as an exchange market are:

- lower benefits than wages and abolition of minimum wages are expected to spur economic incentives
- free wage determination, flexible dismissal law and the abolition of collective agreements;
- encouragement of education and training.

4.3 Theories within the paradigm of the labour market as an arena

4.3.1 Introduction

Within the paradigm of the labour market as arena we distinguish three theories (see scheme 3).

Scheme 3. Theories within the paradigm of the labour market as an arena

| The Labour Market as an Arena | |
|-------------------------------|---|
| 1. | The Neo-Marxist Conflict-theory, in particular the Theory of the Reserve Army |
| 2. | The Segmentation Theory |
| 3. | The Radical Labour Market Theory |

The paradigm of the labour market as an arena contains three essential elements:

1. An important opposition between capital and labour, owners of the means of production and non-owners.
2. Employees have no choice but to supply their labour capacity if they want to survive.
3. There is a distinction between labour capacity and labour performance. Labour capacity is supplied, not labour performance. Via the labour contract the labour capacity is transferred. The labour contract is a source of conflicts.

Employers strive after efficiency, low wages and wage-costs, and control of the labour performances. There is a strong parallel between the opposition of interests in the labour market and those in the labour process. Important themes are the influence of labour relations on the labour market and on collective conflict and property.

4.3.2 The Neo-Marxist Theory of the Labour Reserve Army

In their attempts to control the labour process and to achieve efficiency, employers typically engage in strategies of divide and rule. Wages are the outcomes of power processes. Employers' behaviour is mainly economizing. Technical innovations are designed and introduced in order to reduce the volume and quality of employees. The internal market is kept as small as possible.

Labour market processes can not be explained in terms of free market exchange. The superior power position of the employers within the labour process determines the distribution of the proceeds as well as of privileges.

The capitalist labour process involves both a formal and a real subordination of labour, and it is characterized by a sharp division of control and execution.

Ongoing rationalizations have two important results:

1. the constant degradation of functions and segmentation;
2. a structural labour reserve army.

The degradation of functions and the concomitant segmentation process produce a fall in wages. The existence of the labour reserve army facilitates the disciplining of employees. Unemployment is an inevitable result of rationalization. Inequality is a result of segmentation into a privileged primary segment, a subordinate primary segment and a secondary segment with sub-class.

According to some authors capitalist development passes through two phases:

1. a phase of economic growth characterized by capital widening investments which do not lead to a significant increase in productivity as measured by the production function. Wages and employment rates initially rise. As strong increases of wages erode the returns to labour, the demand for labour decreases. Wages fall and the accumulation ratio increases.
2. The second phase of accumulation of capital is linked to changes in production technology which entail a relative decrease of employment. Aggregate demand does not rise, and consequently the demand for labour decreases. The relatively more productive firms attain higher market shares which are reinforced by concentration processes, like mergers etc.. (W. Semmler and J. Hoffmann, 1972)

4.3.3 The Segmentation Theory

The starting point of the segmentation theory is the consumers' market (Altman and Bechle (1971), Lutz and Sengenberger (1974), Sengenberger (1975), Mendius a.o. (1976)). Control of the labour process and the achievement of a measure of autonomy from societal developments are important strategies in the pursuit of profit. The segmentation theory has two variants: a more conjunctural variant, and a more structural one.

Conjunctural fluctuations in supply and demand of goods and services cause two processes:

1. temporary adaptation of supply of products and of production factors by measures that stimulate performance and speed, flexibilization of the volume of employees as well as time flexibility. Time flexibility can be increased by changes in labour time, overtime, irregular work hours, easier hiring and firing practices.
2. stabilization of the marketing of products by manipulation of delivery time and stocks.

These two processes lead to a dual labour market. The reactions to the conjunctural fluctuations result in segmentation which implies a reduction of mobility. There is a stable segment, which is minimally necessary for survival during an economic downturn. In addition there is a variable secondary segment that consists of employees with low qualifications, who are cheap and easy to recruit. Developments in consuming markets also result in a dualization of firms and sectors.

Structural developments result in a segmentation of three markets:

- occupational markets. Here one finds a broad array of occupational education, knowledge and skills. As the skills of employees are potentially useful for other firms as well, it is not rewarding for individual firms to invest in human capital. Investments by the employees themselves in occupational skills can be rewarding.
- firm-internal markets. The qualifications are firm-specific. The firm provides on-the-job-training. Allocation and reward occur according to institutional rules of entrance, seniority, promotion and wage-systems.
- non specific open markets. General qualifications and low levels of required education are the rule here. Without loss of production these qualifications are of potential use for all sorts of firms. The employees are mobile. The principles of market exchange determine the price and use of their skills.

4.3.4 The radical labour market theory

The radical labour market theory was originally formulated by the labour economists Reich, Gordon and Edwards (1975). The production process, in which the use of labour capacity is situated, constitutes the point of departure. The demand side of the labour market dominates the production process. The behaviour in the external labour market reflects the processes of production. The institutional rules governing the control of production, the social production relationships and the conflicts of interests have to be examined. The principle of divide and rule is widespread. The structure of the demand side determines the segmentation of the labour market. Employers actively bring about segregation within the ranks of the employees. Economic efficiency and control are objectives.

The following strategies of control can be distinguished:

1. Taylorism, formal rules and procedures, a bureaucratic control system, separation of control and execution.

2. Internal markets with assessment of performance, wage and promotion systems based on norms with respect to behaviour and performance.
3. Job requirements are embedded in educational qualifications which separate the primary from the secondary segment; hierarchy and classification are dominant features.
4. A separation exists between core and peripheral firms, which is strongly associated with dualism in working conditions and patterns of mobility.
5. Manipulation by employers also extends to the external market where employees are played off against each other, on the basis of characteristics like sex, ethnicity and age. The chances that employees organize themselves and even might oppose the employers are minimized in this way.

Segmentation of the labour market is supportive of capitalist hegemony. The strategies institutionalize labour discipline and social behaviour in the context of the control system.

4.4 Theories within the paradigm of the labour market as institution

4.4.1 Introduction

In this paradigm the role of institutions moves to the forefront. We will discuss three theories.

Scheme 4. Theories within the paradigm of the labour market as institution

| The Labour Market as an Institution |
|--|
| <ol style="list-style-type: none"> 1. The theory of non-competing groups. 2. The theory of the dual labour market. 3. The job-competition theory. |

4.4.2 The theory of non-competing groups

Some labour economists and sociologists emphasize institutional and administrative rules (J. Dunlop, 1958; L. Reynolds, 1951, 1956; J. Lulofs, 1960; W. van Voorden, 1975). The model of open, free competition doesn't hold because of:

- the existence of non-competing groups;
- the existence of types of market such as monopoly;
- the use of collective power in wage-bargaining;
- relative autonomy of agreements, i.e. a limited impact of market processes.

In the case of non-competing groups wages are not determined by market forces, but by power processes, institutions and customs, which were traditionally regarded as market external factors. A division between the wage market and the job market is observed. Collective agreements play a crucial role in the process of wage determination. This process is highly institutionalized by collective bargaining and agreements. The allocation process is also institutionalized by the operation of formal systems. Not only the allocation function of the labour market is important, but the distribution function as well.

Kerr (1982) was one of the first scientists, who made a distinction between a closed and an open segment. The closed segment is been structured in agreement with a set of rules and is linked to specific firms and occupations. In the open segment market principles determine wages and allocation. Kerr does not explain why this segmentation arises. The theory of the dual labour market proposes some explanations.

4.4.3 The theory of dual labour market

Doeringer and Piore (1971) are the fathers of the dual labour market. Reciprocal influences between production structures and labour market structure form the starting point of the theory. The fundamental distinction is between:

- the primary segment where the stable, better paid jobs offering career opportunities in internal markets are concentrated;
- the secondary segment with bad jobs and poor perspectives.

An internal market is an administrative unit, within which, based on administrative rules and procedures, the processes of wage determination and allocation take place. As consequences of technological developments, the specific features of on-the-job-training and the development of customs firm specific rules and procedures, come into being. In the secondary market a vicious circle of exclusion and stigmatization evolves: prejudiced groups on the base of estimated productivity ———— > no entrance to permanent jobs and internal education ———— > insufficient skills ———— > unstable career ———— > prejudiced groups.

4.4.4 The job competition model

L. Thurow introduced the job competition theory (L. Thurow, 1975; J. van Wezel, 1979). Productivity is analysed as a characteristic of jobs, not of employees. Wage competition gives way to job competition. Equilibrium is not explained in terms of the price mechanism, but it is seen as a consequence of (change in) selection standards. The concepts of relative education rank and schooling costs are important. Employers rank employees on the base of estimated education and training costs, indicated by basic characteristics such as education, sex, ethnicity, age and experience. This process is called statistical discrimination. The resulting queue is led by the persons with the lowest estimated training costs; employees with high education costs close the ranks. When the number of jobs is lower than the number of work seeking persons, the employees in the last positions are crowded out of the market. Higher educated persons get jobs that used to be given to persons with

intermediate levels of education, etc. etc. The lowest educated persons become unemployed.

4.5 Conclusion

In the present section we have presented a brief overview of ten theories of the labour market, ordered into three paradigms. Though useful for many purposes the theories do not add up to a coherent picture of labour market processes. For several reasons this is a situation that should be remedied:

- Most theories are general; this means that they include or imply empirical generalization which, even in the case of clear empirical substantiation, do not even yield an only remotely comprehensive analysis of the labour market.
- Being not comprehensive the theories must be seen as theories of the middle range. The question is then: what relations do these theories bear to one another?;
- With the exception of the neoclassical theory clear ideas about possible equilibria are missing. We need a more balanced theory of the conditions of equilibria;
- With respect to methodological matters the theories show differences which should be explicitly addressed and perhaps remedied: some theories emphasize individualistic and micro level characteristics, whereas others concentrate on collective and macro level characteristics; some theories emphasize processes related to utility and power, whereas other theories point at mechanisms that are expected to produce solidarity, trust and a sense of justice. We need more clarity in these matters and perhaps some methodological and theoretical bridges.
- The partial and provisional character of the theories is not sufficiently emphasized. This means that the danger of committing the fallacy of misplaced concreteness is looming which could be very harmful when policy recommendations are formulated.

In order to improve the scientific relevance of labour market theory as well as its relevance for the design of policies we propose to broaden the scope of the theory.

In the following sections we will present a more general and integrated conceptual framework. Within this framework the more restricted theories, like for instance the ones we have discussed, can play a valuable role.

We like to emphasize that we regard the framework to be presented as a formal model as advocated by R. Boudon (1986, 1987). According to Boudon the search for social-scientific laws is doomed to remain unsuccessful. The most we can achieve is to arrive at explanations of concrete events, processes or relationships in terms of models, defined as 'a deductive system resting upon highly simplifying assumptions'. (Boudon 1987: 55) A theoretical model does not as such admit empirical predictions. It 'is formal in the sense that it does not apply to any real situation, but is rather a kind of framework that needs to

be filled out once we propose to use it to account for observations about the real world.' (Boudon 1986: 202)

According to Boudon the 'filling out' can best be done with the help of the method of decreasing abstraction. In our case this will involve, amongst other things, the empirical interpretation and operationalization of abstract concepts, the specification of the institutional context and the specification of actors and their mutual dependencies. Throughout the process, the proper rules of parsimony have to be observed (see below 6.3.1).

We will first examine some recent publications which deal with theoretical approaches to coordination regimes and mechanisms. This literature might provide suggestions as to how to elaborate a more complete theoretical framework that can hopefully be made fruitful for the study of transitional labour markets.

5. Theoretical approaches to coordination regimes and mechanisms

5.1 Coordination regimes and mechanisms

Various models of coordination regimes and mechanisms have been described in the literature. M. Havekes (1993), J. van Wezel (1992, 1994) and J. van Wezel and M. Havekes (1995) have summarized these approaches. Some authors emphasize the institutional form of coordination, other writers the coordination mechanisms. These mechanisms constitute the link between structure and action. In the next scheme a typology of coordination regimes and coordination mechanisms is given. Two dimensions are relevant: the dimension freedom (first column) versus limiting controls (second column) and the dimension inequality (first row) versus equality (second row).

Ouchi (1980) distinguishes between markets, bureaucracies and clans.

Williamson (1981) makes a distinction between a spot-market, an obligational market, a relational team and a primitive team.

Streeck and Schmitter (1991) have distinguished four coordination regimes and associated coordination mechanisms: markets coordinated by competition, the state coordinated by hierarchical control, community coordinated by spontaneous solidarity, and associations coordinated by organized concertation.

Fiske (1991) focuses on process related coordination mechanisms. He distinguishes four elementary types of interaction and claims that these form the basis for all human actions in social relations: market pricing, authority ranking, equality matching and communal sharing.

Schmid (1992, 1993) stresses markets coordinated by prices, hierarchies coordinated by power, networks coordinated by trust and civil rights coordinated by solidarity.

Thompson (1993) has used slightly different dimensions. He uses the dimension competitive/cooperative instead of the inequality/equality dimension. The dimension freedom/controls is replaced by independence vs. hierarchy.

In the analytical model of Parsons and Smelser the following structures are used: economy, polity, societal community and social-cultural system. In the article 'Equality and Inequality in Modern Society, or Social Stratification Revisited' Parsons (1977) used the dimensions inequality/equality and freedom/constraints as constitutive for this scheme.

Scheme 5. A typology of coordination regimes and coordination mechanisms

| | |
|--|--|
| 1 market 2 spot-market 3 market: competition 4 :market-pricing 5 market: prices 6 classic market 7 economy: money | 1 bureaucracy 2 obligational market 3 state: hierarchical control 4 :authority ranking 5 hierarchies: power 6 bureaucracy 7 polity: power |
| ----- 2 primitive team 3 association: organized concertation 4 : equality matching 5 network: trust 6 network structure 7 social-cultural system: commitment | 1 clan 2 relational team 3 community: spontaneous solidarity 4 :communal sharing 5 civil rights: solidarity 6 clan 7 societal community: influence |

1. Ouchi (1980).
2. Williamson (1981).
3. Streeck and Schmitter (1991).
4. Fiske (1991).
5. Schmid (1993, 1994).
6. Thompson (1993).
7. Parsons and Smelser (1956).

Streeck and Schmitter establish a direct relation between the coordination regimes and the coordination mechanisms.

Schmid refers to regulatory media: prices for the market, power for the bureaucracy, trust for the network and solidarity for the civil rights.

It should be mentioned here that, following recent developments in labour economics, Schmid analyzes trust and solidarity as playing an indispensable role in any conceivable process of simultaneously optimizing the important societal goals of equality and effi-

ciency (productivity) (Schmid 1994).

Trust and solidarity enable effective and productive cooperation: 'considerations of incentive and justice speak against excessive wage differentials' (Schmid 1994: 268). According to Schmid the willingness of employees to apply their 'tacit knowledge' is crucial in a time in which competition is strongly based on both process and product innovation. The capacity and willingness of people to reciprocate is essential for Schmid. Institutional arrangements which can be expected to enhance reciprocation should be promoted.

Schmid also argues for what he calls 'civil rights' institutions, defined as: 'Institutions that endow individuals with entitlements ... according to socially accepted standards of equality and independent of individuals' capacity to reciprocate Their exchange medium is solidarity ...' Civil rights, consisting for instance the expectation of 'a fair replacement of ... wage in case of unemployment', are considered an important institution governing the employment relationship. They provide and help maintain the incentive structure that is indispensable to cooperation and productivity (Schmid 1994: 260). In a transitional labour market they create the sense of security that is needed when people are adversely confronted with the consequences of economic flexibility.

The four coordination regimes can be seen as ideal types, which hardly ever appear in pure form in the empirical reality. Each corresponds to one of the four mechanisms. It seems highly probable that the empirical 'unpure' manifestations take the shape of mixtures of the four types of regimes and mechanisms.

An interesting problem concerns the explanation of institutionally mixed types of coordination regimes. We think that this problem can be solved if one focuses in the first place on the mechanisms involved. The argument is that these mechanisms directly refer to behavioural patterns which in general function as the source from which institutional forms, including coordination regimes, originate.

The mixtures of coordination regimes consist of the various mechanisms, and can be identified in terms of these mechanisms. Combinations of coordination mechanisms make many more institutional forms possible. Different coordination regimes often exist side by side. The processes that give rise to mixed coordination regimes can be interpreted as 'interactions' between the constituent regimes and mechanisms. The idea of interchange via coordination mechanisms between the four coordination regimes can be found in the societal model of Parsons and Smelser (1956).

5.2 Coordination regimes and ideologies, basic value-patterns

It is very interesting that the above-discussed dimensions also appear in research about ideologies and values: freedom/controls and inequality/equality. This suggests possible links between coordination regimes on the one hand and ideologies and basic value-patterns on the other hand.

We can distinguish the following four value-patterns (Triandis 1994; Schwartz 1994; Jenssen 1995; see scheme 6).

Scheme 6. Four basic value-patterns: four basic ideologies

| | Individualism (Freedom) | Collectivism (Limiting controls) |
|----------------------------------|-----------------------------|-------------------------------------|
| Authoritarianism (Inequality) | Authoritarian Individualism | Authoritarian Collectivism |
| Egalitarianism (Equality) | Egalitarian Individualism | Egalitarian Collectivism |

Jenssen summarizes the basic dimensions as follows: 'Interpersonal values are beliefs about what is desirable in the interaction between humans...Authoritarian values mean the acceptance of superiority and subordination as natural and desirable in human relations. Egalitarian values mean regarding parity of power as desirable in human relations. Individualism maintains that independence and self-reliance are natural and desirable. Collectivism stands for the desirability of loyalty and mutual responsibility between human beings' (Jenssen, 1995: 56-57).

6. An integrated socio-economic model

6.1 Introduction: our research strategy

Universities have a critical-intellectual task in society. The overview of theories about the labour market and the literature about coordination regimes, mechanisms and basic value-patterns leads us to the conclusion that a more integrated approach is necessary. It is also an important objective of our research program to combine scientific relevance with relevance for social policy. Our strategy will be to propose a broader theoretical approach to the functioning of labour markets. This will hopefully enable a more complete insight into the operation of labour markets. The subsequent application of the concept of transitional labour markets should help us to establish under what conditions the values of efficiency, equality, social justice, social security and optimal lifetime societal participation can be realized. Finally, empirical research will show to what extent the values that concern us here are actually realized.

Our central value-laden research problem is:

Which institutions and which institutional mixtures promise to support a optimal mix between efficiency and justice seen in a lifetime perspective? (cf. Schmid 1994: 259)

6.2 *The optimal situation model and the perfect labour market*

6.2.1 *The optimal situation model*

Our point of departure is the socio-economic equilibrium model that is proposed by Parsons and Smelser (1956). This neo-functionalist model has more recently been further elaborated, refined and extended (Münch, 1982, 1984, 1991; Van Wezel and Kuperus, 1990; Van Wezel and Havekes, 1995). It theoretically models a society in its optimal situation. It is not presumed that any empirical society strongly corresponds to this optimal situation. The model provides us with a perspective for the empirical study of society. It is a cooperation or communication model, not a harmony model. The model takes account of the existence of parties with opposing interests which, however, can be resolved, e.g. by democratic consultation.

The starting point is a social system 'interpenetrating' with its environment. A system is able to continue its existence in a changing environment only if the following conditions are fulfilled.

1. The problems of 'adaptation to the environment', of 'the attainment of collective goals', of 'the integration of parts' and of 'the durability of long-term trends of pattern-maintenance have to be solved. The four functions are: Adaptation, Goal-attainment, Integration and Latency. Together they constitute the AGIL framework.
2. Specialized units and institutions, fulfilling these four functions, exist. These are: the Economy, the Polity, the Community and the Social-Cultural system.
3. Mutually dependent subsystems are related by exchanges of inputs and outputs which implies that they depend on each other for their continued existence. Differentiation and specialization go together with integration. This integration takes the form of interpenetration.

At the level of society the four functions are fulfilled by the following specialized units:

- the function of adaptation by the Economy;
- the function of goal-attainment by the Polity;
- the function of integration by the Community;
- the function of pattern maintenance or latency by the Social-Cultural system.

We conceive these units as coordination regimes which are interlinked by media of interchange and exchange relations. Actors from different spheres of social life use these media of interchange and enter into exchange relationships. It follows that the coordination regimes of the economy, the polity, the community and of the social-cultural system interact with each other. In the optimal situation we speak of 'interpenetration' of coordination regimes. The respective coordination mechanisms associated with the coordination regimes distinguished are: money, power, influence, and commitment. Six exchange relationships can be distinguished in a society with the four subsystems or coordination regimes. We shall only consider the three exchange relationships involving the economic system.

The exchange processes are mediated and governed by money, power, influence and commitment. The central proposition of the optimal situation model is: '... under properly defined conditions a system high in energy but low in information can be effectively controlled by a system with the observed characteristics - that is low in energy but high in information' (Parsons 1978: 375). This hypothetical situation can be compared with the relationship between a horse and its rider. The horse is much stronger, has much more energy than the rider. Nevertheless the rider can steer and control the horse bringing about a perfect unity. Similarly, in the case of the optimal societal situation, the coordination regimes of the Economy and the Polity are more energetic and flexible than the coordination regimes of the Community and the Social-Cultural system. These last two regimes contain much more social-cultural information. Under conditions of 'interpenetration' an optimal mix of energy and information has been mustered. Such an institutional mixture of the four coordination regimes represents a flourishing marriage between economic efficiency and social justice. Social exclusion is absent.

It is possible to specify the exchange relationships with the economy in the case of 'interpenetration' (see scheme 8). Arrows represent inputs from one system to another one. The letters M, P, I and C designate the media of interchange Money, Power, Influence and Commitment. The letters f and p are abbreviations of factor and product. A factor is pushed from the sending system to the receiving system. A product is pulled by the receiving system.

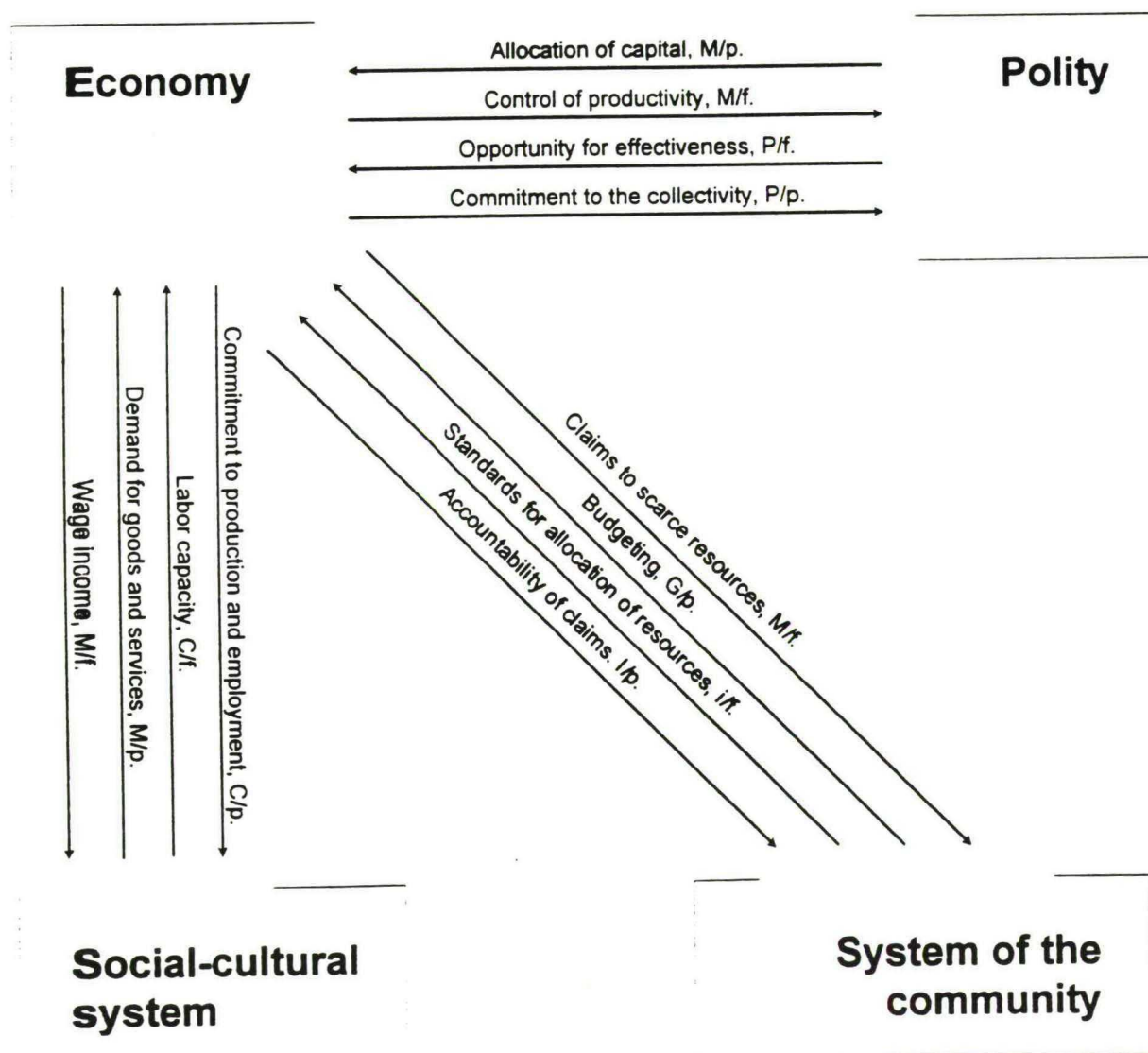
The horizontal axis shows a money exchange of 'allocation of capital' (from the polity to the economy) and 'control of productivity' (in the opposite direction). Here, we have to do with decisions of monetary and political actors on the one hand and of economic actors on the other hand. The money exchange is mediated by an exchange of power. In general horizontal exchange relationships are seen to be means-creating. This also applies to the exchange relationships between the Economy and the Polity. In this connection investments decisions within the Economy are of primary importance: they are pre-eminently means-creating. In the optimal situation there is a favourable mixture of the coordination regimes of Economy and Polity.

The diagonal relations are integrative. Organization and entrepreneurship are involved here. The model indicates a money exchange of 'claims to scarce resources' (by the economy on the community) for the 'ranking of budgets' (opposite direction). This money exchange is mediated by exchange of influence, here taking the form of standards for the allocation of resources and for the accountability of claims. In the optimal situation of the coordination regimes of Economy and Community are favourably hanging together. The system of labor relations is located on this diagonal axis.

The vertical exchange relations are regarded as goal achieving. Links are created between production and sales. There is a money exchange of wage income and demand for goods and services. This money exchange is mediated by an exchange of commitment to provide labour on the part of employees and of a commitment to create employment among the employers. In the optimal situation there is a favourable mix of the coordination regimes

of Economy and the Social-Cultural System.

Recent research by Putnam (1993) has empirically and theoretically revindicated some important insights formulated by classical authors as De Tocqueville and Weber. In his analyses of contemporary Italy Putnam discovered that age-old differences in civic engagement explain the persistent variations in 'political and economic performance' among the Italian regions. Where voluntary associations thrive 'good government and 'good economy' are observed and can also be causally explained from high levels of 'civic engagement'. In other words a flourishing community helps engender the solidarity and trust, in the absence of which organization and entrepreneurship can only suboptimally exist. Putnam stresses the importance of dense, horizontal networks and the norms of reciprocity they generate (Putnam 1993: 163-185; 176).



Scheme eight: The optimal situation model (Van Wezel/Havekes, 1995, p. 44)

It should be mentioned that the analysis of Putnam strongly concurs with Schmid's ideas about equality and efficiency (Schmid 1994).

6.2.2 *The perfect labour market*

The optimal societal situation implies a perfectly functioning labour market. The labour market is seen as an interchange-zone between the economy and the social-cultural system. The perfect labour market combines economic flexibility and rationality with security and justice. Societal exclusion is minimal. Which are the conditions for the perfect labour market to exist?

There is one boundary condition, and four direct conditions can be mentioned. The boundary condition states the necessity of a good combination of human resources and technological resources. Scheme 9 shows the several stages that can be distinguished in the development of such a well-tuned combination. (Parsons and Smelser 1956: 139).

Scheme 9. The fine-tuning process of human resources and technological resources

| Phases | Human Resources | Technological Resources |
|--------|---|---------------------------------|
| One | Primary Socialization | Given data, information |
| Two | Generalized Performance Capacity | Codified Empirical Knowledge |
| Three | Trained Capacity | Technological Know-How |
| Four | Generalized Labour Power | Generalized Purchasing Power |
| Five | Labour Commitment to Firm | Capital Funds Committed to Firm |
| Six | Labour Assigned to Productive Functions | Acquisition of Capital Goods |
| Seven | Utilization in Task Performance | Utilization in Task Performance |

To attain the stage of optimal fine-tuning the 'human capital developing institutions' (family, educational system, firms; M. Brinton 1993) are crucial. Here we touch upon the topics of module four of our research for the European Commission: Training and Human Capital Investment. There must be open borders between the several phases in the process of human capital formation. The institutional spheres involved also have to be characterized by open borders to each other. The ideas of J. Dronkers and J. van Hoof about flexible interconnections between education and labour (1980; 1986; 1990) tally with the stage-model of Parsons and Smelser. The flexibility approach emphasizes three main phases in the process of human capital formation:

1. primary socialization and general, non-occupational education;
2. interconnections between occupational education, apprentice systems, getting practical experience, on-the-job training, measures for re-training, updating courses;
3. internal training courses within firms.

The interconnections in stage 2 strengthen the capacity of supply and demand to adapt to changes in the conditions of employment and the labour market. A good threefold system of educational institutions is essential to prevent social exclusion.

We now come to a discussion of the four direct conditions for the perfect labour market (Parsons and Smelser 1956: 114-123; J. van Wezel and M. Havekes 1995: 56-59). Before doing that two points should be emphasized: in the labour market the human factor has to be motivated, and labour can not be dissociated from the person of the employee. In the evaluations of employees considerations of justice play a role, not just those pertaining to productivity. Physical factors merely have to be maintained (Parsons and Smelser 1956: 134, 137). Therefore a perfect labour market is not only flexible, it also has to be experienced as conforming to standards of justice.

The first function concerns the adaptation function of the labour contract. Here a balance between the interests of the employer(s) and those of the employee(s) has to be struck. This condition is very important in our research module 'Households and Working Time Flexibility'.

With respect to the organization of work we endorse the following analysis: '... on the organization side ego's contract involves him in a set of adaptive relations to other units; this is the organizational context of his role, which includes both the availability of non-social facilities and co-operation of other role incumbents' (Parsons and Smelser 1956: 115). An individual's ability to function in other social contexts should be preserved.

To give an example: in the perfect labour market the housewife does not function as a time-buffer integrating the time-frameworks of labour, leisure, education, care for children etc.. which according to Elchardus' diagnosis of the time- buffer-function of the housewife has been the case into the 1970's (Elchardus 1996: 29-32). This actual situation of the time-buffer function of the housewife was a deviation from the perfect labour market. In the perfect labour market employer-employee are such that women are not excluded from

the labour market. Though employers prefer flexibility of working time, they have to make optimal use of human and technological capital; they have obligations to consumers, banks, sub-contractors etc..

With respect to the household situation the following analysis applies: 'On the household side, ego must be left a margin of freedom from organizational involvement to adapt to certain household exigencies and secondary those of other roles. Conversely, household demands must be adjusted to allow the fulfilment of occupational obligations. The problem is to strike a balance. The regulation of the demand of time for work is obviously one of the main mechanisms which facilitates this balance' (Parsons and Smelser 1956: 115). In this connection the recommendations of Elchardus are valuable: a four day workweek in combination with longer firm-times; security in combination with flexibility amongst other things to be achieved via cooperatives; the idea of a time-fund to stimulate transitions between social security, education, work, care etc.; an explicit regional time-ordering policy (Elchardus 1996: 78-95). The legal protection of labour regarding hours of work and hiring and firing practices are also relevant here (Knecht a.o. (eds.) 1995: 53-107).

The second direct condition involves the goal-attainment of employers and employees: a balance between labour services, output and wages is needed. In general a power balance, facilitating cooperation, between employers organizations and unions is necessary if this condition is to be met. Collective agreements and their declaration of being generally binding (Knecht a.o. (eds.) 1995: 11-51), institutions of income protection (Knecht a.o. (eds.) 1995: 155-208) and minimum wage regulation can be conducive to the attainment of this second condition.

The third condition is a balance in the integrative aspects of the employment contract. The quality of working conditions and the quality of labour services then go hand in hand. Employees show loyalty and responsibility, and employers provide good facilities, autonomy and for instance relative security of (re)employment etc..

Here, institutions that optimize labour participation and the quality of work are necessary. Again the significance of high levels of 'civic engagement' and its concomitants (horizontal networks, strong norms of reciprocity etc.) have to be stressed.

The fourth condition is a balance of value pattern. Employees have to be motivated to do their job that has to be experienced as attractive. Employers have to take care of an efficient organization of work and productivity. Cultural institutions help to fulfil this condition.

6.3 Deviations from the optimal societal situation and from the perfect labour market

6.3.1 A provisional integrated socio-economic model: the optimal societal situation and its deviations

It is possible to model three deviations from the optimal situation of interpenetration:

- inflation and deflation of media of interchange;
- the possibility of restrictions with respect to the realization of one or more of the functions that we distinguished: adaptation, goal-attainment, integration and pattern maintenance. We are especially interested in the functioning of the economy. Therefore we distinguish four restrictive states of the economy which we regard as substantive models of the middle range: the supply model (restrictions on adaptation), the demand model (restrictions on goal-attainment), the organization model (restrictions on integration), and the model of the greedy economy (restrictions on pattern maintenance).
- types of societal patterns or figurations each of which is a deviation from the optimal societal situation of interpenetration.

The model of the optimal situation model and the deviations from the optimal situation, when applied together, provide information not only about forms and processes of exclusion and integration which are potentially possible, but for example also about any new form of social exclusion which might have arisen compared to twenty years ago. Our theory might contribute to a better understanding of the dynamics of social exclusion and integration and it might help anticipate possible developments with respect to exclusion and integration in the coming years.

We consider the interactions between economic, political, social and cultural factors that can explain the dynamics of exclusion and integration.

A comparative analysis within an integrated approach of the interrelated role of institutions and actors will provide a useful tool for the understanding and differentiation of different causes of social exclusion:

- more structural and generally relevant causes;
- more specific causes:
 - for a given social group
 - for a particular form of exclusion
 - for a given time and country
 - presenting broader European features.

The overall theme of our proposal is:

The building of a more comprehensive comparative institutional, inter-actor and interdisciplinary model that can be usefully applied for the explanation of exclusion and unemployment in Europe. The model should contribute to the design of a new model for the development of the European Union, as mentioned in the 'White-book' of the European Commission (1994: chapter 10, 175-181). The following

sections will develop constitutive parts of our model.

The explanatory scheme to be used

The provisional framework of the model can be laid out as follows. According to Mouzelis (1995) a distinction can be made between the institutional structure and the figurational structure. The institutional structure is a system of interrelated roles, positions and rules, which we can break up into Economy, Polity, Community and Social-cultural system. The Agil-scheme, elaborated into a model of the optimal situation and into models of deviations, gives us clues as to the compatibility or incompatibility of institutions. We can characterize these institutions in terms of the dimensions of technology, control and ideology. If these dimensions are incompatible, strategic behaviour and games between actors are important.

In order to characterize these games it is important to take account of the positional and the dispositional characteristics of the actors. In addition, the features of the interaction-situation are important. Finally, the hierarchical character of the games is important, together with the fact that actors utilize economic, political, social and cultural capital.

Drawing on the dimensions of the institutions (technology, control and ideology) we will relate to each other the institutional structure and the figurational structure, i.e. the system of interrelated actors. It follows that it is not only the system of interrelated institutions of economy, polity, community and social-cultural system that is important. The figuration of interdependent actors, which influences the reproduction and change of institutions, is equally important. The actual relations of co-operation and/or conflict between (collective) actors affect the institutions in the next phase.

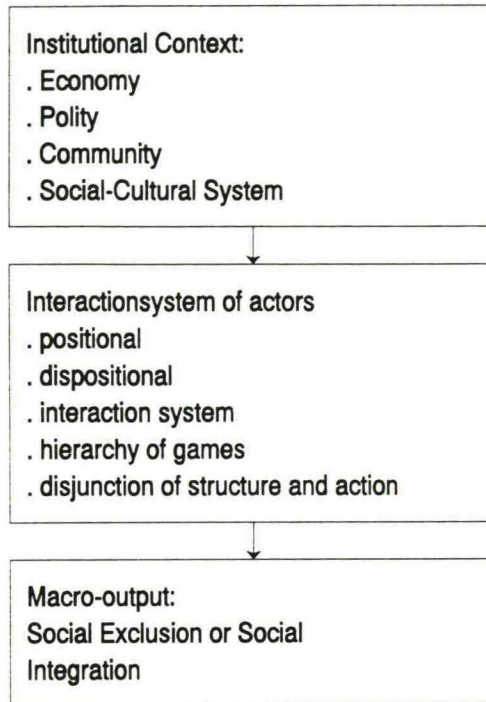
Following Boudon (1981: 97-98, 99-107, 109-123, 123-129) we distinguish three types of institutional processes, two of which are processes of change. Boudon's explanatory scheme depicts causal and feedback processes between the institutional context, the interaction system and macro-outcomes (outputs).

The first type of process is called repetitive process. There is neither feedback from the macro-output to the actions of the actors nor to the institutional context (see scheme ten). Here we see a disjunction of structure and actions; repetitive processes do not cause any changes in the existing coordination mechanisms, which we see as located in what Boudon calls the interaction system, and the institutional pattern of coordination. Actors reproduce the institutions using current rules and coordination mechanisms.

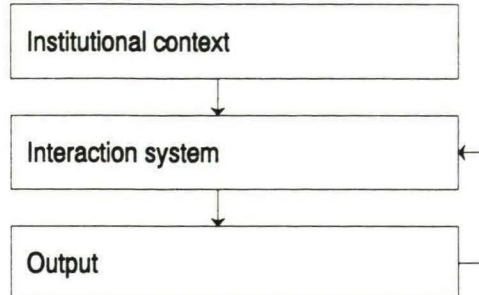
The second type of process is a cumulative process (see scheme eleven). There is a feedback from the output to the actions of actors. The institutional context remains unchanged. Examples of cumulative processes are inflationary and deflationary processes. The institutional context is disjunct from both the interaction system and the output. This implies a disjunction of coordination mechanisms and actions.

The third type of process is a transformation process. Here we see feedback from the output to the institutional context. The institutional context changes. In this case there is a disjunction of actions and structure (see scheme twelve).

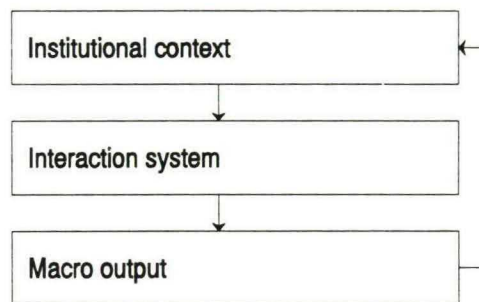
Scheme ten: Repetitive process.



Scheme eleven: Cumulative process.



Scheme twelve: Transformation process.



This explanatory scheme amounts to a combination of (historical-)institutional analysis with the investigation of interactions (or phenomena that can reasonably expected to be related to interactions).

A very inspiring, recent example of its use can be found in M. Brinton (1993). She criticizes some influential current theories (e.g. the human capital theory) for being 'culturally quite narrow.' Her point of departure is: 'The social-institutional context and the normative patterns of human relations vary among industrial societies. These variations need to be -and can be- theoretically formulated.' Therefore, in order to analyse and explain the economic role of women in postwar Japan she sets out to adjudicate 'a balance between an explanation ... based on individual, voluntaristic action and one based on the institutional structures of society...' (Brinton 1993: 17) In short, she argues for 'a more cultural and social-institutional approach...' (Brinton 1993: 78) that has to be comparative as well. In line with modern historical sociology, however, Brinton recommends, to restrict cross-societal comparisons to a limited number of well-chosen cases.

In her research she conducted careful (historical-)institutional analyses of the 'human capital developing institutions' (family, educational system, firms). In this way the institutional context (the environment) was established. Guided by her knowledge of the institutional context Brinton then went on to formulate hypotheses about the values, attitudes,

preference and actions of the relevant actors. Finally, a survey was conducted to test the hypotheses. This survey yielded very interesting results to a large extent due to the culturally and institutionally accurate information which had resulted from the (historical-)institutional analysis. Brinton was also able to produce some interesting comparisons of Japan with the USA.

6.3.2 Inflation and deflation of media of interchange

In the optimal situation there is neither inflation nor deflation of the media of interchange. In reality, the media of interchange -money, power, influence and commitment- are susceptible to inflation or deflation.

Money is the capacity to buy goods and services. In the case of money inflation the purchasing power of money decreases. In the case of money deflation the purchasing power increases.

Power is the generalized symbolic capacity to make and make stick decisions on behalf of a collectivity. Power inflation comes about when uncredible threats become frequent. The use of power increases without a concomitant increase of binding decisions. It is only the very powerful who make effective decisions. The effectivity of power peters out. The number of political decisions does not decrease. Small groups yield power based on the threat of violence.

Influence is the generalized capacity to shape attitudes or opinions by implicit or explicit appeals to common group membership. Inflation of influence occurs when actors try to exert influence without support in the community. In that case the will to arrive at compromises is absent. Sharp divisions within the community arise. The use of influence increases but solidarity does not. Deflation of influence can often be observed when influence has only a narrow base, for example colour, ethnicity, age, sex or education.

Commitment is the capacity to specify values in order to make them applicable in particular situations. Inflation of commitment is the will to implement too many values at the same time. This leads to moralizing. Values tend to become deplete of meaning. There is a lot of discussion but straightforward measures are seldom. People lose their trust. Deflation of commitment involves sticking to one's own values implying the incapacity to take into account other values.

We expect that inflation of money generates the inflation of power, of influence and of commitment. Thus we expect money inflation to concur with ineffective political power, with divisions and exclusionary processes within the community and, finally, with value erosion. Processes of inflation can suddenly turn into deflation. Münch (1991: 356-362) has suggested propositions about the relationships between inflation, deflation and societal dynamics. We can use these propositions to explain exclusion and to explain transitions between integration and exclusion in both directions. Which are the key factors that influence the back and forth between exclusion and re-integration? We have introduced the

key factors of integration in the model of the optimal societal situation. Following our diagnosis of the causes of exclusion, we can hopefully formulate recommendations as to re-integration policies.

6.3.3 Theories of the middle range about deviations from the optimal societal situation

We use four theories of the middle range: the supply model, the demand model, the organization model and the model of the greedy economy.

In the optimal situation model there are no restrictions on supply. The supply side of the economy is situated in the zone between the economy and the polity. It is the locus of the supply of production factors, especially capital. Restrictions on supply cause a decrease of investments.

In the optimal situation there are no restrictions on the demand side of the economy. In the case of the demand model there are restrictions on the demand side. The demand side is part of the interchange zone between the economy and the social-cultural system. Restrictions on the demand side diminish the sales of goods and services as a consequence of a decrease in demand for goods and services.

In the optimal situation model no restrictions on the organization side of the economy exist. The organization side is placed in the interchange zone between economy and community. The organization model refers to restrictions on the organization side of the economy. Restrictions on the organization side hamper innovations in product-markets, in production processes and tend to prevent new combinations of labour and capital.

Restrictions on the pattern maintenance of the long term economic culture are absent in the optimal situation. The cultural aspect of the economy is crucial. The model of the greedy economy depicts restrictions on this aspect. These cultural restrictions within the economy weaken the orientation on long-term productivity. Consumption tends to prevail over production. In modern institutional economics situations like these are often analyzed in terms of low trust and opportunism.

The supply model

Specific research themes in relation to the supply model are: cross-national and longitudinal analyses of laws, political intervention and the use of governmental power as they relate to exclusion, unemployment and integration.

Some questions to be answered are:

Are the main characteristics of present forms of exclusion in the European Union connected with the supply model?

Are there structural supply conditions, producing social exclusion?

Can we identify the social groups, which are more vulnerable to social exclusion, because of the actuality of the supply model?

Do different social policies affect the role of unemployment as a cause of social exclusion?

Is the actuality of the supply model in particular connected with long term unemployment?

We investigate the changing mechanisms of regulation and deregulation with respect to their relevance and pertinence to social exclusion and integration.

Attention will be given to the role of changes in the social welfare system as expressed by new budgetary, fiscal and economic policies.

High wage costs, high real wages, high collective expenditures, social regulation by the state are indicators of the actuality of the supply model. The supply model functions as a cause of social exclusion. The concrete causes in this case can especially be found in political developments.

The process can be summarized as follows:

1. Suppose there are restrictions on the supply side.
2. These restrictions on the supply side have a negative influence on the decisions to invest.
3. Economic actors decide to invest less.
4. Lower investments cause lower production, lower sales and therefore lower demand for employees.
5. Lower demand for employees influences the labour market as interchange zone between the economy and the social-cultural system.
6. The outcome is an imperfection in the labour market caused by supply restrictions.

The demand model

Specific research themes in relation to the demand model are:

Cross-national and longitudinal analyses of values, lifestyles and private consumption, opinions about preferred set of societal arrangements, commitment to labour and to employment as they relate to exclusion, unemployment and integration will be taken up.

Some questions to be answered are:

Are the main characteristics of present forms of exclusion in the European Union connected with the demand model?

Are there structural demand conditions, producing social exclusion?

Can we identify the social groups, which are more vulnerable to social exclusion because of the actuality of the demand model?

This part of our research will pay special attention to the relation between part-time labour and social exclusion, unemployment and integration, further to time-ordering and the situation within households. Also relevant is the study of the role of new flexible time arrangements in reducing the social exclusion that is associated with unemployment. We shall investigate processes and factors of social exclusion

related to family, health, education, value systems and the distribution of paid and unpaid labour within households.

Many possible decreases in demand can lead to the actuality of the demand model. Some indicators are large price-rises, (real) wage reductions, cuts in benefits and excessive saving.

The process can be summarized as follows:

1. Suppose restrictions on the demand side.
2. Consumers decide to spend less.
3. Producers react with a decrease of production because of a decrease of sales.
4. The decision to produce less leads to a lower demand of employees.
5. An imperfection of the labour market has come into being caused by restrictions on the demand side.

A specific topic related to the demand model is the problem of the division of unpaid housework and paid full-time or part-time labour between partners in households.

The labour market is an interchange zone between the economy and the social cultural system. An important condition for a perfect labour market has to do with the balance which the parties to the labour contract have to strike in their relations with other people (third parties).

As human beings with other roles, responsible for children, partners, members of voluntary associations etc., employees seek to hold time sovereignty in order to fulfil these other roles. Employers are related to third parties like competitors, banks, subcontractors, many of them having to take response to the globalization of production and other changes in the international division of labour.

The labour market contract has to allow both partners to fulfil the requirements of the relations with their respective third parties. Under certain conditions, part-time work can favourably affect this balance. Equally important, in this context, are new training/education schemes, the development of new service activities and the vulnerability associated with new information and communication technologies.

The organization model

Specific research themes in relation to the organization model are:

The investigation of the interactions of social norms, solidarity and labour relations in order to discover their impact on processes of exclusion, unemployment and integration. This should be done by conducting cross-national, longitudinal and case studies.

Some questions to be answered are:

Are the main characteristics of present forms of exclusion in the European Union connected with the actuality of the organization model?

Are there structural organization conditions, producing social exclusion?

Can we identify the social groups, which, because of actuality of the organization model, are relatively vulnerable to social exclusion? The vulnerability of the low qualified segment of the labour force is of crucial importance here.

Special attention will be given to the comparative analysis of recent changes in labour relations and in labour market regulation and social policies as possible causes of unemployment and deterioration of the conditions of the unemployed. Problems of solidarity will also be approached on the basis of an analysis of the voluntary sector. Special attention will be given to the role of 'civic networks', '-civic engagement' (Putnam) and 'civil rights' (Schmid), encouraging organization and entrepreneurship.

Comparative case studies of real life conditions, experience and views of the social groups concerned will also be of great value. Cross-national, longitudinal and case studies of processes of the formation of the relations between ethnic groups and their impact on exclusion, unemployment and integration are part of our research.

If the organization model is actual, the execution of entrepreneurship is inhibited which causes a lack of innovation in the economy and a concomitant lack of inclusion of new labour supply. Members of minority groups, young entrants and women are the main victims. Exclusion increases and solidarity decreases. A division within the labour market between insiders and outsiders arises. In this case social developments cause exclusion.

Organization restrictions can have several causes:

- the existence of non-representative advisory bodies operating in the field of economic policy;
- an unbalanced profit rate;
- the absence of community level measures regulating allocation and distribution, aimed at giving direction to the economy. There are several possibilities here: a lack of general accepted goals of social-economic policy; the existence of free wage policy for the market sector in the absence of central agreements; the absence of a link between wages and benefits; too much or too little differentiation of wages; a lack of consensus about labour time; in general insufficient institutional arrangements between government and social partners.

Restrictions on the organization side cause a lack of innovation. The process can be summarized as follows:

1. There are restrictions on the organization side.
2. The actors of the community, especially employer and employee organizations, do not provide standards for the allocation and distribution of scarce resources and for the organization and combination of labour and capital.
3. The reaction of the economic actors results in a lack of innovation in the economy. The prevailing situation is maintained and there are limits to entrepreneurship.

- There is no synthesis of economic and social considerations.
4. Because of the lack of innovation there are few new jobs and few new enterprises.
 5. The growth of new jobs stagnates and the employers decide to demand less new employees.
 6. The conclusion is that there is an imperfection in the labour market resulting from organizational restrictions.

The model of the greedy economy

Specific research themes in relation to the model of the greedy economy are:

Cross-national and longitudinal analyses of both institutionally mediated and market determined socio-economic distributive outcomes will be set up, designed to elucidate their relationships to exclusion, unemployment and integration. Exceptional poverty will be analysed as an instance of social exclusion in contrast to the case of exceptional wealth. We shall try to explain the income-distribution and analyse the feedback of political, social and cultural developments, especially the impact of social exclusion on the performance of the economy. Important in this context is the interaction between local and national labour markets, and between the transnational and international monetary systems. By doing this new causes of social exclusion might be identified.

Some questions to be answered are:

Do the main characteristics of present forms of exclusion in the European Union bear any relation to the model of the greedy economy?

Do conditions exist which hamper the development of the levels of 'trust' needed to generate the transactions that enable the cooperation in the absence of which no 'gains from trade' can arise?

Are there structural conditions, given Europe's position in the world context, which cause the actuality of the greedy economy?

The model of the greedy economy is a consequence of restrictions on the pattern maintenance of long-term economic orientation on productivity (loyalty, motivation). Restrictions on the pattern maintenance aspect of economy are related to motivations of economic actors which erode economic-cultural resources. This finds expression in:

- a strong orientation on money and the pursuit of gain in the short-term;
- an exceptional increase of the income of topmanagers and a decrease of the income (including benefits) of poor people;
- a careless attitude towards nature and environment.

Monetary developments contribute to the actuality of the model of the greedy economy. Important in this connection is the current institutional context of the monetary system which is characterized by:

- overconsumption, an imbalance between consumption and production;
- decreasing investment rate, saturation of investments;
- no fixed exchange rates and insufficient supervision of the money markets by the

- monetary authorities;
- weak links between the financial capital used for speculative purposes, and capital that is put to use for prosperity enhancing trade and for productive investments;
- short-term speculation.

A short term reaction to this financial uncertainty is flexibility of the labour market. In the model of the greedy economy the turbulence in the financial market is transferred to the labour market resulting in a sharper division between the poor and the rich people. We are especially interested in the feedback effect of social exclusion on the social and economic performance of the economy.

6.3.4 Idealtypical deviations from the optimal situation of interpenetration

In the optimal societal situation of interpenetration the relationships between the four institutions -Economy, Polity, Community and Social-Cultural System- are strongly developed. There is specialization or differentiation. The institutions have the capacity to meet the functional requisites of adaptation, goal-attainment, integration and pattern-maintenance. At the same time integration is brought about by processes of communication and by exchanges of inputs and outputs: e.g. mediated by the functioning of dense, horizontal networks and reciprocity. Dynamics and controlling go hand in hand. The capacity to adapt to the environment is well-developed. The same can be said about the level of internal integration. Parsons has referred to this type of social system as 'Society' (Parsons, 1977: 182). 'Society' is therefore an idealizing, not-descriptive concept.

Münch (1982) has introduced four deviating societal types:

- conflict;
- adaptation;
- rigid system;
- isolation.

In the case of conflict the separate institutions are strong. The exchange-zones, however, are weak. There is no communication between the actors and the result is conflict. There is no base for compromises.

In the societal type of adaptation the dynamic institutions, i.e. economy and polity, are dominating the controlling institutions, the community and the social-cultural system. Dynamic prevail, directional stability is absent. The situation is characterized by flexible market dynamics which suppresses justice and security. There is flexibility of employees, but no flexibility for employees. In other words the time-sovereignty, which would allow the employee a measure of freedom in the organization of her/his working time, is missing. (Elchardus 1996: 14).

With respect to the case of adaptation the judgment of Scott Lash is relevant: 'The point I want to argue here is that the ghetto has been emptied out of all these economic and social-cultural institutions - of markets, labour markets, commodity markets and capital

markets; of the industrial branch plants of corporate hierarchies, of corporatist institutions such as trade unions, of welfare institutions, and of regulation by the family ... Disorganized capitalism ... brings what Wacquant has called the 'hyperghetto', in which all these institutions disappear from the ghetto. The result, and that is the basis of the constitution of the black underclass, is a deficit of such institutional regulation' (Scott Lash 1994: 161-162).

A third type is the rigid system. Here the controlling institutions strongly prevail over the dynamic institutions. This societal type is the reverse of the societal type of adaptation.

A last type is isolation. There is differentiation between the four institutions. But the actors do not relate to each other. There are no mutually supporting exchanges. So societal performance is suboptimal.

6.3.5 Deviations from the perfect labour market

The perfect labour market combines flexibility with security; we refer to this combination as flexsecurity. There are two main deviations from the perfect labour market: the flexible labour market without controlling which implies the absence of security; the rigid labour market without flexibility.

Characteristics of the flexible labour market without security are:

- a bad correspondence between human capital and technological resources, caused by technological determinism and the dominance of occupational and labour market education over general education;
- the prevalence in the employment contract of the interests of employers with respect to each of the AGIL-aspects.

The characteristics of the rigid labour market are the opposite of the characteristics of the flexible labour market without security. The interests of employees are prevailing.

According to Parsons and Smelser (1956: 173-175) a systematic classification system of market imperfections can be built in five steps.

The first step is to locate the place of the interchange zone of the market. Relevant here is the interchange zone between economy and the social-cultural system.

The second step is the choice between the possibilities of the consumers' market or the labour market as interchange-zone. Here the choice is the labour market.

The third step takes account of the aspects of adaptation, goal-attainment, integration and pattern maintenance which govern the market transactions.

In a fourth step we can establish which aspects are especially relevant for some markets, and assign them their proper weight.

The last step bears upon direction in which the aspects of adaptation, goal-attainment, integration and pattern maintenance gravitate: in the direction of the economy, the employers, or in the direction of the social-cultural system, i.e. the employees.

We can utilize this strategy to redefine the perfect labour market and the three types of labour markets, which are mentioned in section four: the occupational markets, the internal firm-bounded markets and the non specific open markets.

Parsons and Smelser employed three sub-types of the labour market (1956: 147-156) which are very similar to the three types we referred to. They distinguish the following types:

- markets for labour services at a low level of technical competence and involving low degree of organizational responsibility = non-specific open labour markets;
- markets for executive services = partly occupational markets;
- markets for professional services = partly internal firm-bounded markets.

In the perfect labour market the goal-attainment aspect has a high weight. There is no specific advantage for either the employer or the employee. Occupational markets are structurally similar to the perfect labour market. The aspects of goal-attainment and integration are also heavily weighted. Employees are relatively more interested in the integration aspect whereas employers are more interested in the adaptation aspect. Internal firm-bounded markets especially emphasize the internal aspects of the employment contract: the aspects of integration and pattern-maintenance. The aspect of adaptation is only weakly emphasized. The interests of employees are important for the goal-attainment aspect and interests of employers for the adaptation-aspect. The non-specific open labour markets are strongly tilted in the direction of the interests of employers. The aspects of adaptation and goal-attainment are very important here.

7. Some concluding remarks

In this paper we have tried to broaden Schmid's theoretical conception of the transitional labour market. The goal was to propose a more comprehensive theoretical framework that, conceived as a formal model, may sensitize researchers to possibly relevant factors, actors and processes.

We have used a neo-functionalist theory as the organizing guideline. The main reasons for this choice are its comprehensiveness and the fact that it provides us with a conception of equilibrium.

By linking the chosen framework to Boudon's explanatory scheme we have suggested a way to connect the abstract concepts of the general model to causally interpretable observables which are organized in terms of simplified models.

In the section discussing some middle range theories about deviations from the optimal societal situation we proposed a number of more specific research themes that will be addressed in subsequent research*.

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